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Gales, Ben

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**In Foreign Parts: Free-Standing Companies  
in the Netherlands around the First World  
War**

Research Memorandum 577 (GD-16)

Ben Gales

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**Editors:**

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Prof.dr W.K. Klein Haneveld  
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Prof.dr T.J. Wansbeek

**Memorandum from  
Institute of Economic Research\***

Faculty of Economics  
University of Groningen  
P.O. Box 800  
9700 AV Groningen - The Netherlands  
tel. 31-50-633741  
fax. 31-50-637337

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## In foreign parts. Free-standing companies in the Netherlands around the First World War<sup>1</sup>

Ben Gales

Around 1890, modern times invaded the office of the old-established mercantile-house of H.G.Th. Crone. Suddenly, the four-persons writing desk bought in 1805 no longer was the most imposing piece of furniture. A type-writer and telephone marked, according to the firm's chronicler, the beginning of the fourth period in its history. As nobody knew how to type and typing in any case did not seem to fit the environment, the firm continued to mail handwritten letters and even preferred the wafer to the envelope. The telephone-number was secret to avoid unsolicited calls. Most noticeable was that general trade vanished, exports to the Netherlands East Indies declined despite promising lines as bicycles and state-carriages, but imports from the colony boomed. Almost sneakingly, the firm acquired culture-companies or was asked to manage these. By 1912, the firm owned or was largely interested in eight companies and the number would increase further. The partner specializing in Indonesian affairs had already chosen a new quarter of his own, one floor above the old common room. The room opposite became the territory of the bookkeeper; the quickly expanding Indonesian administration required such a specialist in 1889.<sup>2</sup>

The tobacco-companies managed by the firm Crone were free-standing companies. These businesses had an incontestable legal existence. They, however, had almost no visible life in the Netherlands. These companies had not even "a brass nameplate some place in the City". They were a label on some ledgers; the topic of discussions by the "worthy" directors gathered round the table and the stock-holders present in the side-room. M. Wilkins has argued that free-standing companies were a peculiar, European frame to invest abroad. In historiography, the investments of free-standing companies have been subsumed in portfolio investment. Thus it became invisible that the free-standing company was the most typical mode of direct foreign investment till the First World War.

Investment through free-standing companies is foreign direct investment.<sup>3</sup> The power to control and run the business abroad characterized the foreign direct investor in contrast to the foreign lender merely interested in portfolio investment. Free-standing companies exercised control as well, at least they were expected to do so. The absence of solid roots in the domestic economy distinguished the free-standing companies from companies engaging in foreign direct investment of the usual type. Multinational business grew out of domestic activities. The presence abroad was complementary to a base, the core business in the country of origin. Investments were made to sell or to manufacture

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<sup>1</sup> Paper presented to the Eleventh International Economic History Congress, Session C-50, The free standing company within the international economy, 1870-1970, Milan, 11th-16th September 1994.

<sup>2</sup> H.G.Th. Crone 1790-1940. *Gedenkboek uitgegeven ter gelegenheid van het 150-jarig bestaan der firma op 2 juni 1940*, ([Amsterdam, 1940]) 67-72, 81-84, 107-113.

<sup>3</sup> The following is mainly based upon: M. Wilkins, 'The free-standing company, 1870-1914: an important type of British foreign direct investment', in: *Economic History Review* XLI (1988) 259-282. Also: idem, 'Defining a Firm: History and Theory', in: P. Hertner and G. Jones (ed), *Multinationals: Theory and History*, (Aldershot/Brookfield, 1986), 84-87; idem, *The History of Foreign Investment in the United States to 1914*, (Cambridge (Mass)/London, 1989) 161-162.

abroad, but also to enhance control over supplies. Free-standing companies did not involve "operational internalization" in contrast to multinational firms. They did not transfer "internal enterprise experience", ownership advantages derived from technology, marketing or managerial skills to a foreign and therefore unfamiliar environment. Free-standing companies were registered at home and had their headquarters there. They, however, conducted their main business operations abroad, though one aimed at controlling directly capital sunk in specific businesses. Besides the legal link and a part-time board, their roots in the home country consisted mainly of ties with the capital markets. Freedom from coordination with a parent company, differentiated free-standing companies from legally separate units set up by established firms to administer specifically activities abroad. The headquarters in the country of origin and the involvement with its capital markets distinguished the free-standing company from the companies set up by expatriates abroad.

The aim of this essay is to test some of the ideas of M. Wilkins. Though the City of London was the world's primary financial center, the Netherlands were a rich country and traditionally an important exporter of capital. The financial sector, furthermore had close contacts with Britain and oriented itself upon the British model. Comparison, therefore, might shed some light upon this phenomenon within the context of a small open economy. Did free-standing companies exist in the Netherlands, how important were they, where and in which industries did they operate? These issues will be discussed both for the companies operating within the colonies and elsewhere. Before, the status of the colonies must be settled. Furthermore I will introduce the source which is the empirical base of this article.

### The Kingdom: a whole or parts?

The analysis of the institutional background of foreign investment is not without conceptual problems. An important one is the definition of foreign. In a country like the Netherlands, but Britain too, labelling the colonies either as abroad or as at home would result in two, very different stories. The constitution claimed the empire, both the empire in Europe and the empire in the East and West, to be one and united. That claim had more than a purely legal significance. Colonies might have been unfamiliar, even foreign to Dutch investors, they were alien to citizens of other nation-states. The issue to be judged is whether the difference between unfamiliar and alien was substantial or not.

Legally, entry in the colonial markets was not reserved to the Dutch. A series of institutional innovations between 1860 and 1870 constituted the beginning of the modern period in the history of the Dutch East Indies.<sup>4</sup> The Agrarian Law of 1870 was the most important institutional breakthrough. It provided the legal framework for the later development of the plantations. It became easier both for Dutch subjects and companies to

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<sup>4</sup> The first change was that banks and trade companies, registered in the Netherlands, started overseas activities in 1863. The Rotterdam Bank was even established with the explicit motive to ease the shortage of capital in the East Indies and was supposed to concentrate its business there. These banks were joined by the Chartered Bank of India, Australia and China, which as a defensive measure established an agency in Batavia, the colonial capital. Others followed. The foreign banks were keen competitors and the Chartered Bank took over the exchange business of the Rotterdam Bank when the latter decided to wind up banking overseas in 1870. G.C. Allen, A.G. Donithorne, *Western Enterprise in Indonesia and Malaya. A Study in Economic Development*, (London, 1954) 187, 193-194; G. Gonggrijp, *Schets ener economische geschiedenis van Indonesië*, (Haarlem, 1957) 114; Rotterdamsche Bank N.V., 1863-1963. *Honderdste jaarverslag*, ([Rotterdam, 1963]), 22-24.

acquire land on long-term leases. There was some differential treatment discriminating other nationalities. In agriculture or mining, limited liability companies had to be registered either in the Indies or the Netherlands. Non-Dutch companies therefore were forced to found daughter-companies, either in the Indies or the Netherlands. Later this was revoked.<sup>5</sup> Though there was freedom of entry, one had to pass through an institutional sluice.

Freedom of entry in principle does not preclude that nationals had significant advantages relative to non-Dutch subjects. According to H. Schröter contemporaries considered the colonies as familiar, though distant territories. The legal system and administration of justice, the currency and the official language were the same.<sup>6</sup> Dutchmen undertaking investments in the colonies, therefore, had to overcome less insecurity than businessmen with another nationality. The Dutch, however, clearly had a mental problem in seeing the unity between the parts of the kingdom. It is surprising to see the limited attention for the Indies in a survey describing the proud progress of Dutch industry at the fortieth jubilee of the queen. A former senior official of the State Railways in the Indies wrote the chapter on the railways in the Netherlands without considering the colonial experience.<sup>7</sup> Colonials of Dutch origin complained regularly about the attitude of the general public in the Netherlands. Part of their myth was that even the better shops in the Netherlands could not provide an adequate equipment for those leaving for the tropics. In the colonies, there existed gaps and they were readily filled by other nationalities. During the First World War, the editor of "De Indische Financier", the Indian Financier, observed that more foreign than Dutch firms could be found in the business district of Batavia and that many of the latter were owned by foreigners. Three out of the seven members of the board of the Society for Trade had not the Dutch nationality.<sup>8</sup>

Such anecdotal evidence is a rather meager justification for a decision with substantial implications. There were, however, substantial institutional differences between the metropolitan and tropical areas. The legal setting for mining is an illuminating case. Mining in the Netherlands was regulated by a law in French, the Napoleonic mining law of 1810. In the East Indies, the Royal Decrees of 1873 were in force and mining was not regulated in the West-Indies. Crucial principles of the colonial regulations were the opposite of those in the Dutch law. The former gave priority to the owner of the soil among competing applicants for concessions. The latter denied explicitly such a right. In the mother country, the legal literature pondered lengthily on the issue why it was not desirable to take ownership of the soil into account when granting concessions. All this had no effect overseas. There was not only no match of principles, the legal developments within the areas were out of phase. In the early 1890's, regulation

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5 J.F. Haccoû, *Management of direct investments in less developed countries. Report submitted to the International Bank for Reconstruction and Development*, (Leiden 1957), 196 n 1; idem, 'Nederlands-Indië economisch. Een beeld van groei en strijd', in: H. Baudet and I.J. Brugmans (red), *Balans van Beleid. Terugblik op de laatste halve eeuw van Nederlands-Indië*, (Assen, 1961) 239. The rule, however, was not put into practice everywhere. W.L. Korthals Altes, *De betalingsbalans van Nederlandsch-Indië 1822-1939*, ([Rotterdam, 1986]), 62 suggests that the restriction was revoked in 1890. That, however, seems casual reading of the source, Haccoû. At the other hand there existed companies with a judicial seat elsewhere.

6 H.G. Schröter, *Aufstieg der Kleinen. Multinationale Unternehmen aus fünf kleinen staaten vor 1914*, (Berlin, 1993), 31.

7 P. Liefinck (red), *Het bedrijfsleven tijdens de regering van H.M. Koningin Wilhelmina 1898-1938*, (Amsterdam, 1938). One might have expected that the kingdom was taken as a whole in this particular context. Ofcourse, many books were published concentrating upon the colonies exclusively.

8 L. de Bree, *Nederlandsch-Indië in de twintigste eeuw. Schets van den vooruitgang en de beteekenis van Ned.-Indië in de jaren 1900-1913*, (Batavia, 1916) 3-5.

in the Indies was liberalized and that was reflected in the Indonesian mining law. One hoped to stimulate exploration; the explorer therefore was given priority. Furthermore, it seemed not to be in the interest of the state to force owners of the concessions, which were limited in years, to exploit these under penalty of the concession being reverted to the state.<sup>9</sup> In the Netherlands, frustration with concessions lying waste was the stimulus for change. The state restricted the rights upon the concessions granted in principle in perpetuity. Exploration was "nationalized" and the lands not yet conceded reserved to the state. The West Indies got their mining law in 1909, a short version of the East-Indian law, which left the local authorities much room to manoeuvre.<sup>10</sup>

The different legal systems reflected differing circumstances and a different history. The threat of foreigners seizing the mineral wealth in the Indies did not impress the Second Chamber, the Dutch House of Commons, in 1898. Rumours that the son of Rockefeller was considering to be naturalized to a Dutch national and that therefore exploitation by the state was the only secure option to avoid foreign penetration, were politely ignored.<sup>11</sup> By contrast, the next year coal-mining by the state in the Netherlands was presented as the only feasible option to combat "Überfremdung" and assert national sovereignty against the Rheinisch-Westfälische Kohlen-Syndikat. By the end of the First World War, the role of the state in the system of the Dutch mining law became less pronounced. The Indies entered a less liberal area. The granting of concessions was stopped in 1913. In 1917, a new law specified that the government would enjoy at least half ownership in every future petroleum concession. In the next new mining law, issued a year later, the link between exploratory efforts and the right to obtain a concession was severed. Since the late 19th century, one took care not to differentiate legally between Dutch and foreign citizens. It was difficult to match this with the greater stress upon national sovereignty. The result was that not the legal framework itself, but the interpretations and practice became discriminatory. After the First World War American civil-servants said that in the Netherlands East Indies methods were used, "that even in Russia in the old days ... could not have been carried out."<sup>12</sup>

The national character of the mining-industries was a wide-spread preoccupation in Europe around 1900. In this industry one might expect nationals to have the largest, institutionally guaranteed competitive advantage. That advantage was minor till the First World War. The Dutch remained relatively liberal, also in their colonies. Furthermore, as the situation at home and overseas was different, Dutch entrepreneurs coming from Europe did not enjoy major "natural" advantages relative to other nationalities. Dutch nationals did not own intangible capital in the form of knowledge or acquaintance with rules and procedures which were of major economical relevance. In practice, the compulsory place of establishment did not make the East Indies a less contestable market for foreigners. A substantial part of the plantations was in fact owned by foreigners. One estimated that capital issued by Dutch companies amounted to 11 percent of the

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<sup>9</sup> *Handelingen 2e Kamer 1892-1893, Bijlagen 123.1-5; 1895-1896, bijlagen 143.1-6; 1897-1898, Bijlagen 162.1-6; 1898-1899, Bijlagen 15.1-17.*

<sup>10</sup> J. van Soest, *Olie als water. De Curaçaosche economie in de eerste helft van de twintigste eeuw*, (Zutphen, 1977) 121-122.

<sup>11</sup> *Handelingen 2e Kamer, 18.10.1898.*

<sup>12</sup> E.W. Chester, *United States Oil Policy and Diplomacy. A Twentieth-Century Overview*, (Westport/London, 1983) 283. Also on the issue: C. Gerretson, *Geschiedenis der 'Koninklijke'. Vijfde deel*, (Baarn, 1973) 215-221.

companies producing rubber in Java in 1911. In Sumatra, the Dutch share in all plantations was 53 percent. Both the sector and this region were extremes. The overall foreign share was 20 percent.<sup>13</sup> The share of foreign activity in this colony makes it unlikely that Dutch or entrepreneurs with another nationality entered the Indonesian market with substantially different endowments. It therefore seems justified to consider the colonies as belonging to the unfamiliar, not the familiar parts for starting investors.

### III The source

Since 1882, information on limited liability companies published in the statute-book was brought together in 'Mrs Van Nierop & Baak's Naamlooze Vennootschappen'. The source surveyed the formation of new companies in a legal sense. Every other year, the authors gave a complete overview of the firms in existence. The major source used in this essay is the edition for 1912.<sup>14</sup> The major advantage of 'Van Nierop & Baak's Naamlooze Vennootschappen' is that it gives an overview of all Dutch limited liability companies. It is therefore more complete than the surveys of companies with stock traded at the Amsterdam Bourse. The major disadvantage of this source is that it covers only one specific legal institution, the limited liability company. That restriction, however, is unimportant in this case. The free-standing company was largely a capital market phenomenon and the capital market preferred limited liability.

During the last decades of the nineteenth century, the limited liability company established itself as the dominant legal institution in business. Bodies not incorporated were more numerous, but one-man firms were of minor importance in the national economy and of none within the international sector. However, partnerships, "the traditional and natural form" of firms, were an exception among the not incorporated bodies.<sup>15</sup> They could be important, but were losing ground. Limited liability emerged either to cater for increasing needs for finance or to limit the risks of losses.<sup>16</sup> Initially, most limited liability companies were active within financial services. The composition of this group started to change during the last decade of the century. Since 1884, plantations were mainly organized as limited liability companies. Industry followed as well as public emissions and quotations at open capital markets.<sup>17</sup> Nevertheless, only a minority of all firms was quoted in 1912; 20 percent of the sugar factories, 10 percent of the shipyards,

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13 'Nederlandsch-Indië als Internationaal Belangencentrum', in: *Verslag van bestuur en staat van Nederlandsch-Indië, Suriname en Curaçao 1926 I. Nederlandsch-Indië, Bijlage A. Mededeelingen omtrent enkele onderwerpen van algemeen belang. Bijlagen van het verslag der Handelingen van de Tweede Kamer der Staten Generaal, 1926-1927*, 5, A 10-12. W.M.F. Mansvelt, P. Creutzberg, *Changing Economy in Indonesia. A Selection of Statistical Source Material from the early 19th Century up to 1940. Volume 3 Expenditure on Fixed Assets*, (The Hague, 1977) 25.

14 *Mrs Van Nierop & Baak's Naamlooze Vennootschappen, Jaargang 1912 (een en dertigste jaargang)* (Zwolle, [1913]).

15 Ch. Wilson, *The History of Unilever. A study in economic growth and social change. Vol II*, (London, 1970), 77.

16 The second argument has been forwarded to explain the decrease in average capital paid up since the late 1870's. A change in the fiscal regime, however, caused a statistical artefact in the same direction in the mid 1890's. C.A. Verrijn Stuart, *Inleiding tot de beoefening der statistiek, III-1 De statistiek van het bedrijfsleven*, (Haarlem, 1915) 90; J.H. van Stuijvenberg, 'Economische groei in Nederland in de negentiende eeuw: een terreinverkenning', in: W.J. Wieringa e.a. (red), *Bedrijf en samenleving*, (Alphen aan den Rijn/Brussel, 1967) 211-214.

17 R. Brandes de Roos, *Industrie, Kapitalmarkt und Industrielle Effekten in den Niederlanden. Ein Beitrag zur Kenntnis der niederländischen Industrie und der Faktoren, welche die Beschaffung ihrer Anlage-Kapitalien beeinflussen* (Haag, 1928), 106; Roos, Wieringa, 9, 11.



5 percent of the chemical firms, 3 percent of the breweries and textile firms, less than 1 percent of the companies engaged in metal working.<sup>18</sup> Slowly, the Dutch exchanges acquired more an industrial nature. Foreign exchanges were initially more attractive though legal regulation abroad was more strict than at home and capital was relatively cheap. Dutch interest rates were low, though they started to increase a few years ahead of the British ones in the 1890's and moved slightly above the French level by the turn of the century. Industrial emissions became more common, but at the exchange real interest in this type of stock only emerged during the First World War.<sup>19</sup>

Though large companies were increasingly incorporated, older institutional forms survived in some sectors. These, however, were specific exceptions, which should contrasted with the many small businesses opting for limited liability. By 1930, a third of these were classified as midget-companies with a minute capital paid up. More than a third employed five persons or less. The overall development favouring organization within smaller and smaller legal units continued till the Second World War.<sup>20</sup> Surveys of limited liability companies contain large gaps, like the substantial textile industry. The costs of limited liability, however, were small. It was likely that this legal form would be chosen if there was a small preference for a modern legal form. Limited liability was what outside financiers would require in any case to reduce the risks of asset specificity. It also allowed to spread risks over a multitude of institutions. Multiplication of organizations was the typical development, not the growth of single, units expanding outside the boundaries of its initial core business.<sup>21</sup> All this, increases the value of 'Mrs Van Nierop & Baak's Naamlooze Vennootschappen' as a source to trace the historical importance of the free-standing companies in the Netherlands. It, however, is likely that the degree of concentration will be undervalued.

A number of rules of thumb were used to identify free-standing companies within the more than 2.000 pages of Mrs Van Nierop & Baak's list. I cannot discuss these here in any detail. Often decisions had to be made on a slight base. For two years, I checked a posteriori the companies retained in the sample with those mentioned in the annual colonial statement as registered in the Netherlands, but working in the Indies. Our selection was too severe, eliminating engineering companies or firms exploiting cinema's, which had no name with a clear colonial connection. Nevertheless, the match was acceptable.

I mention some of the more general and debatable decisions. In theory the center of economic activities is a distinctive feature for distinguishing free-standing companies from other types. In a static source, one has to allow for more activities within the home country than simply attaching a brass-plate to a door or wall. So the Noorsche Gasmaatschappij, the Norwegian Gas Company, seems a fine example of a free-standing company. It owned a gas factory in Kristianssand and two other cities in Norway. Capital

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18 Brandes de Roos, *Industrie*, Zweiter Teil, 14. The number of industrial limited liability companies in Van Nierop & Baak was taken as point of reference. Due to differing categories, the comparison caused classification problems.

19 Brandes de Roos, *Industrie*, 111-112, K.D. Bosch, *Nederlandse beleggingen in de Verenigde Staten*, (Amsterdam/Brussel 1948) 595-596; F. de Roos, W.J. Wieringa, *Een halve eeuw rente in Nederland* (Schiedam, 1953), 62.

20 M.J. de Bosch Kemper, *De tegenwoordige staat van Nederland*, (Utrecht, 1950) 107-113.

21 Such a development was not confined to limited liability. Networks were typical for partnerships too. Not business strategy, but the legal framework and an absence of suitable partners provoked the first direct investments by Jurgens. Wilson, *Unilever*, II, 30, 45-46, 48-49.

in Norway accounted for most, but not all fixed investment. The company also supplied a small Dutch town with gas and, after 1912, won the concession for the Dutch mining town Kerkrade. Most of its expansion, however, was outside the Dutch borders. In 1917 still, most of its capital was invested abroad, particularly in the Svenska Gasverk.<sup>22</sup> Rather arbitrarily, I took a percentage of 20 percent as a dividing line. A free-standing company might have assets in the mother country up to this level. The criterion is rather gratuitous as the necessary information is often not available. Furthermore, it is a coincidence if there is qualitative information to interpret the criterium in the context of business behaviour and going abroad.<sup>23</sup> One clearly stands upon a slippery slope. It only seems logical that free-standing companies would develop some activities at the home-market. If they were able to identify a profitable niche at some distance and if a normal evolution would be seeking the most familiar first and the less later, one might expect that the creation of a home-base would require less costs.

Mechanical criteria perform unsatisfactorily too in the case of so called transfer-investments or bypass-investments. Investments of French or Belgian origin transferred by a firm registered in the Netherlands to the East Indies were quite common. An example is the empire of A. Hallet, whose Société Financière des Caoutchoucs (later Socfin) became the main channel for Franco-Belgian investment in South East Asia, the Indies, but also Malaya and Indo-China. Hallet introduced the cultivation of the palm oil in the Dutch Indies and stimulated its beginnings in Malaya. In our sample, Hallet is present with the Soengei Lipout Cultuurmaatschappij, which was established before the société, and two more companies of a later date. All three were controlled from outside the Netherlands. The Société Financière became widely reknown for its "elaborate supervisory service" to cover its many estate companies in East Asia.<sup>24</sup>

Mostly, the issue of control cannot be settled. Take the French-Dutch estate companies, in which Geo. Wehry & Co was involved. It was not unusual that management was confided to a partnership.<sup>25</sup> Wehry and Co initially started as an estate and tobacco trading firm in the Indies. Gradually Wehry evolved into one of the five large trading houses or administration offices, both the common, but rather inapt name for the intermediaries between the estates and the outside world.<sup>26</sup> In 1912, Wehry had head quarters both in the Hague, the Netherlands, and in Batavia, the capital of the East-Indies. Sometimes the Batavian branch acted as the local managing agent, while some partners of the Dutch branch were represented in the board of directors in the Hague. Sometimes, local management was left to another partnership and Wehry and Co in the Hague was one of the directors. In the French-Dutch companies, Wehry and Co was

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22 Nierop & Baak, 1917, 45.

23 Take the "Waterleidingmaatschappij", supplying water in the Dutch town Maastricht and Namen and Leuven in Belgium. The headquarters of the "Waterleidingmaatschappij" was at a substantial distance of the producing units. It was omitted from the sample as the value of the Dutch part of the business exceeded the threshold in 1912. A few years later the company would have qualified as a free-standing company, even with lower threshold. The firm was losing its domestic base. C. Cillekens, J. van den Boogard, B.P.A. Gales, *Loop naar de pomp. Geschiedenis van de watervoorziening en de waterleiding in Maastricht* (Maastricht, 1988), 53-55; 103-111.

24 Allen, Donithorne, *Western Enterprise*, 114, 119, 140-142.

25 Within the metropolitan financial sector, especially assurance, a number of partnerships, sometimes in the guise of administration offices, controlled one or more limited liability companies or mutuals.

26 H. Baudet, M. Fennema (red), *Het Nederlands belang bij Indië*, (Utrecht/Antwerpen, 1983) 52, 160. See also: *Persoonlijkheden in het Koninkrijk der Nederlanden in woord en beeld. Nederlanders en hun werk*, (Amsterdam, 1938) 1606-1607.

specified as the "delegate" of the board of governors both in the Hague and Batavia. Wehry interfered actively with the management of the estates. It is therefore likely that control was concentrated by this firm in the French-Dutch companies too. In these cases it seems likely, that the French investors were "passive". The conclusion, however, is based upon circumstantial evidence.

Investments originating from Germany and transferred back to that country through a firm registered in the Netherlands are known as bypass-investments. An interesting example are the Kohlensäure Werke C.G. Rommenhöller. The company was both registered in the Netherlands and Germany in 1899. Its works were spread over 18 towns in Germany, but there was an unit in Rotterdam as well. Before the war Rommenhöller was consul-general in Rotterdam, later the company's head quarters was housed in Berlin. It seems that the Dutch "Exploitation Company" was a holding with the purpose of tapping the Dutch capital market. This impression is strengthened by the existence of a second company under the same management known outside the Netherlands as Carbonique Moderne. It was probably launched to attract French and Belgian investors. Rommenhöller was not a temporary affair and remained quoted in Amsterdam. It is rather difficult to explain why a firm like the one of Rommenhöller was given a Dutch legal existence merely to attract finance or to profit from Rotterdam as the sally-port of the German hinterland. The Rommenhöller companies, however, fitted in a cluster of Dutch companies. The background will be discussed later. Patents were decisive factors of location.

Interpreting registration in terms of control and particularly in terms of the nationality of control is not always convincing. It certainly does not always match the insight in business circles themselves. "The whole question of control", said R. Cohen of Shell when the Britishness of this company was under discussion, was "very largely nonsense. It is a matter of sentiment, but if by transferring control to the Hottentots we could increase our security and our dividends, I don't believe any of us would hesitate for long."<sup>27</sup> In this type of survey, however, one only can assume that legal registration is a sufficient operational definition for control and that given the country of registration, the location of investments distinguished a free-standing company from a national or a multi-national one. Adjustments for the degree of activity of management would require an immense load of research. Table 1, however, gives an indirect indication of the importance of control versus judicial seat for the plantations in the late 1930's. The issue is only troublesome in rubber.

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27 D. Yergin, *The Prize. The epic quest for oil, money and power* (New York etc, 1993) 192

Table 1 Legal seat and location of top-management in the East-Indian plantations, about 1937  
(percent of total production of the estates)

|          | judicial seat in<br>the Netherlands East Indies |        |                                      |                                      |            |                | judicial seat<br>in the Netherlands |                            | judicial seat<br>elsewhere |    |
|----------|---|--------|--------------------------------------|--------------------------------------|------------|----------------|-------------------------------------|----------------------------|----------------------------|----|
|          | all   |        | of which<br>top-management           |                                      |            |                | all                                 | of which<br>top-management | all                        |    |
|          |   | in NEI | in NEI<br>but a<br>branch<br>of Neth | in NEI<br>but a<br>branch<br>of else | in<br>Neth | else-<br>where |                                     | in<br>Neth                 | else-<br>where             |    |
| coffee   | 26  | 7      | 7                                    | 0                                    | 7          | 5              | 50                                  | 47                         | 3                          | 17 |
| sugar    | 13  | 3      | 5                                    | 1                                    | 4          | 0              | 78                                  | 78                         | 0                          | 0  |
| tea      | 31  | 14     | 7                                    | 2                                    | 7          | 1              | 41                                  | 39                         | 2                          | 19 |
| cinchona | 47  | 25     | 12                                   | 0                                    | 10         | 0              | 39                                  | 38                         | 1                          | 2  |
| rubber   | 11  | 2      | 2                                    | 1                                    | 3          | 3              | 45                                  | 31                         | 14                         | 33 |

source Haccoû, Management, 198<sup>28</sup>

As in Britain, free-standing companies were often grouped around mercantile houses. Trading partnerships and companies supplied managerial and even entrepreneurial skills and handled transport and marketing. The question, however, is whether trading houses themselves can be considered free-standing companies. If investment trusts with operations abroad could qualify as free-standing companies, trading houses with similar operations might. In principle I decided to omit mercantile houses. The estates, they might manage, were still part of the sample, at least if these were limited liability companies and registered in the Netherlands. Some trading companies were kept in the sample, like the Handelsvereeniging Amsterdam (H.V.A.) Contemporaries considered this company a "cultuur bank", later a leading estate company. Before 1910, it had laid out the largest sugar estate and factory in Java and one of the largest in the world, an estate not administered as a legally separate limited company.

Finally, a rather odd category consisted of a peculiar group of ships. It was custom to register individual river-vessels as a limited company. Sometimes it was explicitly mentioned that the managing director was domiciled in Belgium, often Antwerp. It is unclear whether these were Dutch ships active in Belgian waters or Belgian ships operating from harbours like Rotterdam. This group was kept in the sample as a curiosity. Numerically it was of importance, in terms of capital invested it was not.

<sup>28</sup> The percentages do not sum to 100. Probably, indigenous production was taken into account.

#### IV A quantitative overview

At the eve of the First World War, 843 limited liability companies registered in the Netherlands were free-standing. Table 2 shows that free-standing companies were a phenomenon concentrated within a few sectors. In these, they were a substantial section of all companies.<sup>29</sup> The total of 843, however, was only 9 percent of all such companies in existence by the end of the year. That is substantially less than the share of 37 percent in Britain calculated by Hall or the 20 percent estimated by Houston and Dunning.<sup>30</sup> These estimates, however, are based upon reference books for use at the stock exchange, a source more comparable to Van Oss Effektenboek than to Mrs Van Nierop & Baak's Naamlooze Vennootschappen. In the former around 200 free-standing companies would be included with a larger share of the total. Expansion of the scope by using a more complete source increases the absolute numbers substantially. However, in contrast, so it seems, to what some authors expect for Britain, the share of the free-standing companies within the increased number of firms surveyed shrinks. The specific Dutch legal and institutional background might over accentuate this. There were relatively many limited liability companies per head of the population in the Netherlands, 1.43 in 1912, compared to a British figure of 1.27 in 1910. The Dutch firms had a capital paid in of f 311 guilders per caput, the British ones f 646.<sup>31</sup> Both the overall small size of Dutch businesses as the preference for small institutions is reflected in these figures, but also that institutional barriers to entry were not high.

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<sup>29</sup> Without fishing, the percentage of the agricultural free-standing companies would increase to 74. The remainder consisted of horticultural societies, companies exploiting polders, but also companies dredging gravel. The source included quarrying and for example salt-making in Russia under this category as well.

<sup>30</sup> Wilkins, Free-standing, 262 n 12; T.A.B. Cooley, 'Britain's Overseas Investments in 1914 Revisited', in: *Business History* 36 (1994) 82.

<sup>31</sup> The number of all Dutch limited liability companies and total capital paid in was taken from: CBS, *Statistiek Rijksinkomsten*. According to this source the total number was 8.722 companies. That is less than Van Nierop & Baak's total of 9.448. The British figures of the limited liability companies were taken from: Verriijn Stuart, *Statistiek III-1*, 94; population figures from B.R. Mitchell, *European Historical Statistics 1750-1970* (London/Basingstoke, 1975).

Table 2

The importance of free-standing companies relative to all Dutch limited liability companies within specified sectors in 1912 (percent).

|                                  | Free-<br>standing<br>companies<br>% | All Dutch<br>limited<br>liability<br>N |
|----------------------------------|-------------------------------------|--|
| Land reclamation                 | 0                                   | 11                                     |
| Agriculture/Estates/Fishing      | 58                                  | 730                                    |
| Sugar                            | 46                                  | 41                                     |
| Mining                           | 74                                  | 90                                     |
| Oil                              | 87                                  | 46                                     |
| Industry                         | 3                                   | 1502                                   |
| Construction                     | 1                                   | 2067                                   |
| Utilities                        | 6                                   | 79                                     |
| Infrastructure/Transport         | 9                                   | 246                                    |
| Banking/Administration/Insurance | 5                                   | 673 <sup>32</sup>                      |
| Mortgage banking                 | 25                                  | 92                                     |
| Trade                            | 3                                   | 1014                                   |
| Shipping                         | 5                                   | 1823                                   |
| Other                            | 2                                   | 943                                    |

source: Van Nierop & Baak, 1912

The important share of free-standing capital relative to capital paid by all limited liability companies was the opposite of the modest weight of the number. The institutions designed to operate abroad were relative "capital intensive". According to the official "Statistiek der Rijksinkomsten" capital paid in by all companies registered in the Netherlands had amassed 1.900 million guilders. Capital of the companies in our sample was 587 million guilders.<sup>33</sup> The share, therefore, was almost one third.

Comparisons between countries are rather tricky, because the data are rather fragile. Corley recently published some estimates of British foreign direct investments. His approach seems to come close to ours, if we add the investments of the multinationals as the Royal Dutch and the Nederlandsche Handel Maatschappij and furthermore take into account mercantile houses with branches overseas. Our total would increase to 884 million guilders in 1912. Total capital of British companies quoted as operating overseas was 1.065 million pounds, inclusive participations by foreigners. The British share was slightly less than 50 percent, not substantially above the Dutch one.<sup>34</sup>

Total Dutch foreign direct investment was 2.256 million guilders in 1914, of which 1.680 was invested in the East Indies and 329 in the United States. Industry might have invested 170 million and obligations of life-insurance companies in Europe had a

<sup>32</sup> In their summary table, Nierop & Van Baak counted a total of 464 banks and administration offices. In fact the total was 364.

<sup>33</sup> Nierop & Van Baak do not specify for each company capital paid in; capital issued is always known. In services the difference might be large, sometimes only 10 percent being actually paid. For this comparison we used capital paid in and if not known capital issued.

<sup>34</sup> Corley, 'Britain's Overseas Investments', 78. In contrast to Britain, there is no need to distinguish between portfolio investments in overseas railroad companies and such companies managed actively from the Netherlands. In this sector all investments were passive.

value of 77 million guilders.<sup>35</sup> The total is net of transfer investments in the Indies. Inclusive these, the total would swell to 2.200 for the Indies in 1914.<sup>36</sup> Correcting for later changes, total foreign direct investment was 2.650 million guilders in 1912. This figure is largely a guesstimate based upon available literature. It, however, can serve as a rough point of reference to estimate the importance of the free-standing part of foreign direct investment. Capital issued by free-standing companies is known. The capital value of all investments was estimated by using the balances published in the source. For each category a ratio between capital issued and the balance total excluding obligations of share-holders was calculated. A ratio of 2 is a common rule of thumb; in agriculture, however, the ratio was lower. The estimated book value of the free-standing companies was almost 990 million guilders, 40 percent of all foreign direct investment. Multinationals only account for a small part of the remaining 60 percent. Most of it consisted of investments by companies registered in the Indies. In this essay, they were considered expatriate, not free-standing companies.

Table 3 Types and fields of activities by free-standing companies existing in 1912  
(share of all capital issued by these companies)

|              | NEI | NWI | Eur | NAm | LAm | Asia | Afr | Oth | Total |
|--------------|-----|-----|-----|-----|-----|------|-----|-----|-------|
| Agri/Plantat | 42  | 1   | 0   | 2   | 1   | 0    | 0   | 0   | 46    |
| Sugar        | 4   | 0   | 0   | 0   | 0   | 0    | 0   | 0   | 4     |
| Mining       | 6   | 1   | 2   | 1   | 0   | 0    | 0   | 1   | 11    |
| Oil          | 5   | 0   | 1   | 2   | 0   | 0    | 0   | 0   | 8     |
| Industrial   | 2   | 0   | 1   | 0   | 0   | 0    | 0   | 0   | 3     |
| Constr/Util  | 0   | 0   | 0   | 0   | 0   | 0    | 0   | 0   | 0     |
| Infrastruct  | 7   | 0   | 0   | 0   | 0   | 0    | 0   | 0   | 7     |
| Banking/Ins  | 1   | 0   | 0   | 0   | 0   | 0    | 1   | 0   | 2     |
| Mortg banks  | 0   | 0   | 0   | 3   | 1   | 0    | 1   | 0   | 5     |
| Trade        | 4   | 0   | 0   | 0   | 0   | 0    | 0   | 0   | 4     |
| Shipping     | 4   | 0   | 0   | 0   | 0   | 0    | 0   | 0   | 4     |
| Other        | 1   | 0   | 0   | 0   | 0   | 0    | 0   | 0   | 1     |
| All          | 76  | 2   | 4   | 8   | 2   | 0    | 2   | 1   |       |

source: Van Nierop & Baak, 1912

Table 3 gives a further breakdown of capital issued by free-standing companies in major types of industry and regions. The table gives relative figures. Also this table shows the high concentration of the activities of the Dutch free-standing companies. Agriculture dominated, a share of 50 percent, estates together with sugar production. Though the Royal Dutch was left out of the sample, mining and oil amounted to one fifth.

<sup>35</sup> B.P.A. Gales, K.E. Sluyterman, Outward bound. The rise of Dutch multinationals, in: g. Jones, H.G. Schröter (eds), *The Rise of Multinationals in Continental Europe* (Aldershot, 1993), 65.

<sup>36</sup> We assumed that 75 percent of the investments in the Indies was Dutch. Including the commercial enterprises of the government the percentage was 80. Mansvelt, Creutzberg, *Expenditure on Fixed Assets*, 25.

At the time, foreign observers already pointed to the "extraordinary large sums" invested by the Dutch in their Indies.<sup>37</sup> Comparisons justify their amazement. By 1910, Belgium had invested less than one tenth of its direct-investments in Africa; the non-European countries all together received 40 percent.<sup>38</sup> One would expect a small country to diversify its investments more. After all, abroad was relatively larger. It was more likely that British funds would flow to their colonies, considering both their size and spread. The Empire attracted 56 percent of all British foreign direct investments. In this perspective the Dutch figure is the more striking.<sup>39</sup>

## V Home country advantages and free-standing investment

M. Wilkins argued years ago, that the rise of multinational enterprises should be considered in the context of structural characteristics of the home country.<sup>40</sup> The rise of international business has been analyzed in the light of home country advantages and economies of scale. Intangible skills and economies of scale and scope are at the core of the argument that involvement overseas was linked with comparative advantages at home. Corley links the concentration of the British upon resource based activities overseas directly with Britain as the "workshop of the world". Competitive advantages at home stimulated firms to scour the world for supplies and that process created the kind of learning which was helpful when doing business abroad.<sup>41</sup> M. Wilkins already wondered how small countries as the Netherlands and Belgium might shape the nature of multinational enterprise given this perspective. In theory small economies only have a limited scope for comparative advantages. Every nation, to paraphrase S. Kuznets, has some advantage and therefore can be successful in something, but small countries will concentrate upon a narrow range of activities and therefore will show a relatively high degree of specialization. In the case of free-standing companies the issue is more problematic. For free-standing companies are by definition not an extension abroad of domestic activities. The free-standing nature of foreign direct investment might either be a legal artefact, the same competitive advantage spread over a domestic institution and one catering outside markets, or free-standing companies might reflect home advantages of an intangible kind.

In the Dutch case, the concentration of both foreign direct investments and free-standing companies was not a reflection of a comparable concentration within the

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37 B. Harms, *Volkswirtschaft und Weltwirtschaft. Versuch der Begründung einer Weltwirtschaftslehre*, (Jena, 1912) 237.

38 W. Peeters, *Belgische Investerings in het Buitenland 1873-1914. Deel I. Directe Private Investerings. Het nominaal kapitaal van Naamloze Vennootschappen werkzaam in het buitenland. Paper voor de Workshop on Quantitative Economic History. K.U. Leuven februari 1994*, 21. We classified Russia as European.

39 Corley, 'Britain's Overseas Investments', 81. That the Dutch invested much more than other European countries in the colonies is denied by H. Baudet, *Nederland en de rang van Denemarken*, in: *Bijdragen en Mededelingen betreffende de Geschiedenis der Nederlanden* 90 (1975), 439.

40 M. Wilkins, 'The History of European Multinationals: A New Look', in: *the Journal of European Economic History* 15 (1988), 483-510.

41 Corley, 'Britain's Overseas Investments', 71. This line of argument has been brought forward most prominently by A.D. Chanler. Other forces might lessen the disadvantages of a small scale. So S. Kuznets argues that the homogeneity of small countries is advantageous for the structural changes, which are the more important aspects of economic growth. S. Kuznets, 'Economic Growth of Small Nations', in E.A.G. Robinson (ed), *Economic Consequences of the Size of Nations* (London, 1960) 28-30.



domestic economy. Dutch modern economic growth was remarkably balanced. The Dutch were late industrializers. They invested both in new industries like oil, chemicals, branded products and light electro-technical engineering. At the same time, they did not shun the dynamos of the previous phase in capitalism. Labour intensive industries, like textiles were major industries and some became relatively more important. Coal-mining was developed after 1900. There were no clear poles of progress. The Dutch were exceptionally productive in the public utilities and relatively productive in producing textiles and paper, but over all, their performance in the core industries of the second industrial revolution was not impressive.

Concentration upon manufacturing might be misleading, because Dutch productivity was high in agriculture and commercial services, though this did not spread out widely. For Dutch value added per worker in (industrial) food en drink was less than in Germany and even France. Furthermore concentration upon levels of productivity is misleading, because high productivity is not identical with a comparative advantage.<sup>42</sup> Trade patterns, therefore, might reveal the comparative advantages of the Dutch better.

Table 4 Selected products with a comparative advantage for the Netherlands in 1912  
(Balassa index above 0.30)

|               |      |                  |      |
|---------------|------|------------------|------|
| vinager/beer  | 1    | jewelry/silver   | 0.74 |
| cheese        | 1    | bulbs/plants     | 0.74 |
| butter        | 0.90 | cocoa            | 0.71 |
| gutta-percha  | 0.89 | fish             | 0.70 |
| ships         | 0.87 | paper            | 0.62 |
| meat          | 0.87 | candles/stearine | 0.55 |
| vegetables    | 0.85 | spirits          | 0.50 |
| ceramics      | 0.83 | glass            | 0.47 |
| rice meal     | 0.83 | peat/litter      | 0.44 |
| potato(flour) | 0.81 | margarine        | 0.35 |

source: Statistiek van den In-, Uit- en Doorvoer 1912

The quality of the Dutch trade statistics is poor. Before the First World War, the volumes traded were published for many products; prices lacked or were unreliable. Nevertheless I calculated a Balassa index using the 320 products specified in the lists of

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<sup>42</sup> Data on productivity and estimates of relative productivity among countries have not yet been published. The reconstruction of Dutch historical national accounts is still work in progress. On the rhetorics of high productivity: P. Krugman, *Peddling Prosperity. Economic Sense and Nonsense in the Age of Diminished Expectations* (New York/London, 1994), 260-261, 268-280.

major products imported and exported. Ideally one should use broad commodity groups and construct a measure of normalized export share. Sectors, in which exports were greater than the country's overall world market share, would identify a comparative advantage. I grouped some products in a wider category, though they could not be weighed for their value. I also used a primitive index, in which a value of 1 signalled the highest degree of comparative advantage.<sup>43</sup> Table 4, therefore, can only give a rough impression. Nevertheless it is clear that agricultural produce was the major revealed competitive advantage of the Dutch. Most of these products were clearly European. Products of colonial origin or products in which colonial inputs were important, had low values: vegetable oils 0.22, sugar 0.28, kapok 0.29.

The bonds between the mother country and its colonies were weak by 1912 and furthermore losing strength. The imports of the Indies in the Netherlands halved from 35 to 40 percent around 1875 to 20 in 1913. Exports remained stable at a percentage between 15 and 20. More telling, the Dutch share in the trade of the Indies declined from 60 in 1874 to 30 in 1913. While Britain oriented itself more upon its Empire and Europe or North America became less important trading partners, the opposite happened in the Netherlands. Production of more modern staple crops, rubber or copra, was destined for foreign markets to a much larger extent than some of the old crops like tobacco. The Dutch colonial empire was -and increasingly became- less centered upon the mother country in comparison with other colonial empires. Britain received 24 percent of all colonial exports in 1933, Belgium 43 and France 67; the Dutch figure was 19.<sup>44</sup>

It is hard to establish close bonds between activities at home and abroad even at the level of individual industries. Of course, the colonial economy was largely an agricultural one. The Netherlands itself were agricultural as well; the numbers of those employed in agriculture even increased till the independence of Indonesia. Metropolitan and colonial agriculture, however, had almost nothing in common. A flexible and efficient system which guaranteed the generation and in particular the dissemination of knowledge was considered as of prime importance in the renaissance of Dutch agriculture after the 1880's. A similar system existed in the Indies. The resemblance, however, is superficial. The colonial authorities were more concerned with the economy than most other colonial governments; they were more inclined to intervene than those in the European part of the kingdom. An aspect was the priority given to spreading know-how, an old priority. The introduction of cinchona is the most famous example.<sup>45</sup> Expenditure on research and development was higher than for example in Japan till 1910. It is unlikely that the skills needed for tropical agriculture were derived from agriculture in the Netherlands. Irrigation, which received much larger public sums, was an exception.

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43 N.F.R. Crafts, 'Comparative advantage in UK manufacturing trade, 1910-1935', in: *The Economic Journal* 96 (1986), 639-640; idem, 'Revealed Comparative Advantage in Manufacturing, 1899-1950', in: *The Journal of European Economic History* 18 (1989) 127-137. I used the procedure of: R. Fremdling, *Technologischer Wandel und internationaler Handel im 18. und 19. Jahrhundert. Die Eisenindustrien in Großbritannien, Belgien, Frankreich und Deutschland*, (Berlin, 1986), 122 ff. The index is defined as  $(X-M)/(X+M)$ .

44 Haccoff, 'Nederlands-Indië economisch', 245.

45 The British government was not interested in the seeds offered by a British resident in Peru, Ch. Ledger. The Dutch government, which already experimented with its cultivation in Java, accepted and conducted systematic research on the government's cinchona plantation. The new plants had a higher quinine content. This type of plantation was high risk and capital intensive due to the long interval between planting and yield (15 years) and other cultivation problems. Both cooperation of government and private firms and the application of scientific methods led to a near monopoly of cinchona production by Java in 1910. Allen, Donnithorne, *Western Enterprise*, 92-93.

Hydraulic engineering was, of course, well established in Holland.<sup>46</sup>

The history of sugar growing and refining in the Indies illustrates nicely the nature of Dutch involvement and the weak links with the mother country. At the beginning of the 20th century, virtually all capital invested in the sugar industry was Dutch of origin. Of old, the refining of sugar had been a major industry in Amsterdam. Competitors in Britain and Germany had gained ground rapidly since the middle of the 18th century. Nevertheless, the Dutch were especially unenthusiastic about the sugar trade in the East around 1830. "They could not be beaten out of their homes with sticks". The colonial government, which assumed responsibility for the organization of the production at the time, therefore engaged British, French, Chinese or Bengal contractors or established factories of its own, often with a British manager. Dutch reluctance slowly disappeared, once the profitability of growing sugar was obvious. By 1870, private enterprise took over the last entrepreneurial functions exercised by the state. Under the so called state's "cultuurstelsel", sugar had been transported to Amsterdam, 86 percent in 1870. Cane accounted for three quarters of the raw material of the refineries in Europe. A decade later, not more than 10 percent of the sugar was exported to the metropolitan market and the share of cane for the refineries was down to 7 percent. The major market became London; by the turn of the century, the United States was the most important. Soon one had to find new outlets and Java sugar was increasingly sold in the Far East, Japan, China and India.<sup>47</sup> The "nationality" of the investments or the expertise in growing the product did not match the "nationality" of the markets. Furthermore, the Dutch were not interested in intermediary functions. A few houses dominated the trade in sugar of Java. Of the exports in 1918, 41 percent went through European firms, mostly German and British. Japanese houses handled 25 percent, Chinese 27 and the share of Indonesian firms was 7. Dutch firms were absent.<sup>48</sup>

As K. Sluyterman already indicated, the Indonesian market, especially the sugar industry, was important for the Dutch machinery industry in Europe. This was a recent phenomenon. At the beginning of the nineteenth century, government officials had high hopes. The colonial market was seen as the major outlet for J. Cockerill, a national company till the Belgian secession, and later for other producers. In fact, orders for Dutch factories were limited for a long time. Around 1890 less than 10 percent of the industry's boilers in the Netherlands East Indies had been made by Dutch factories. Things improved later; the percentage was 30 in 1910. By then almost half of the orders went to Dutch factories. The Indies were growing rapidly; the heated surface of the steam boilers increased five fold between 1880 and 1914. At home the surface increased four times.<sup>49</sup> The backward linkage thus was recent. Its cause was the general rapid growth

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46 P. van der Eng, *Agricultural development in Indonesia since 1880. Productivity change and the Impact of Government Policy*, (Groningen, 1993) 73-76, 79-82, 92-97, 141-149. The institutions providing education and research were partially located in Europe.

47 M. Bakker, *Ondernemerschap en vernieuwing. De Nederlandse bietsuikerindustrie 1858-1919*, (Amsterdam, 1989) 265; J.F. Haccoû, *De Indische exportproducten. Hun beteekenis voor Indië en Nederland*, (Leiden, 1947), 215-221.

48 Nederlandsch-Indië als Internationaal Belangencentrum. Verslag van bestuur en staat van Nederlandsch-Indië, Suriname en Curaçao 1926 I Nederlandsch-Indië, Bijlage A. Mededeelingen omtrent enkele onderwerpen van algemeen belang. Bijlagen van het Verslag der Handelingen van de Tweede Kamer der Staten Generaal, 1926-1927, 5, A 13. The statistic quoted covered 60 percent of the harvest.

49 W.H.P.M. van Hooff, *In het rijk van de Nederlandse vulcanus. De Nederlandse machinenijverheid 1825-1914*, (Amsterdam, 1990) 237-241. During the early decades of the century, the colonial authorities tried to stimulate innovation in ship building with orders.

in the East Indies. Till the inter war period, growth figures in domestic product overseas were above those of the Netherlands. Neither a single case nor growth rates as such are sufficient to establish the direction or the importance of the linkages. The visible linkages, however, were weak and loosening and backward linkages from the Indies to the Netherlands probably outweighed the ones originating in the Netherlands. The remarkable lack of specialization of the home country was the reflection of the extreme concentration of its investments overseas. Earnings from overseas allowed to refrain from specialization at home. The contribution of the East Indies to national income was evaluated at 13 percent. The colonies, in particularly, the Indies, kept the Netherlands from falling to "the level of Denmark", as contemporaries said.

Tabel 5 Growth rates of Gross Domestic Product  
(constant prices)

|         | NEI  | Netherlands |
|---------|------|-------------|
| 1880/90 | 1.36 | 0.89        |
| 1990/00 | 2.45 | 1.39        |
| 1900/10 | 2.47 | 2.35        |
| 1910/20 | 2.54 | 2.80        |
| 1920/30 | 3.34 | 3.77        |
| 1930/39 | 0.70 | 0.24        |

source: Van der Eng; CBS<sup>50</sup>

The investments of the free-standing companies were part of a more general pattern. Total foreign direct-investment was similarly concentrated. Three-quarters went to the East Indies. Contemporaries exaggerated somewhat estimating that almost one fourth of total national wealth was invested in the colony. The share invested there increased from 11 to 15 percent of national wealth between 1900 and 1910. It reached almost 18 percent in 1920 and stayed at that level till 1938.<sup>51</sup> All these investments were loosely connected with a domestic base. Not only the investments by Dutch free-standing companies proper, but Dutch foreign direct investments generally were free-standing.

It was to be expected that entrepreneurs would devise institutions to profit from both the opportunities overseas and the advantages the home country had to offer, an abundant capital market and skills in trade and administration. The free-standing company was an option. But not the only one. Companies registered in the Netherlands, but operating in the Indies were only a small percentage of the companies registered in the

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<sup>50</sup> I choose growth of GDP as a better basis for comparing the "European sector" within the Indies with the Netherlands. The 19th century figures are preliminary estimates subject to revisions. They were kindly given by prof J.L. van Zanden and his associates working on the reconstruction of Dutch historical national accounts. Figures to be published by prof A. Maddison show that growth per capita was quite close till 1913; the Indian level was one fourth of the Dutch one.

<sup>51</sup> D. Crena de Iongh, 'Nederlandsch-Indië als beleggingsgebied voor Nederlandsch kapitaal', in: C. Gerretson, *De sociaal-economische invloed van Nederlandsch-Indië op Nederland* (Wageningen, [1938]) 110. J.B.D. Derksen, J. Tinbergen, 'Berekeningen over de economische betekenis van Nederlandsch-Indië voor Nederland', in: *Maandschrift van het Centraal Bureau voor de Statistiek* 40 (1945), 210-216. For a recent evaluation: M.J. Baudet, G.J. Wijers, 'De economische betekenis van Nederlands-Indië voor Nederland', in: *Economisch-Statistische Berichten* 15-09-1976, 885-888 and Baudet, 'Rang van Denemarken', 440; J.L. van Zanden, R. Griffiths, *Economische geschiedenis van Nederland in de 20e eeuw* (Utrecht, 1989), 7.

Indies and working there. Furthermore, the share of the former decreased.

Tabel 6 Free-standing companies in the East Indies compared with companies registered in the Indies, 1895-1925

|      | Registered<br>in the<br>Netherlands |                                  | Registered<br>in the<br>Netherlands East Indies |                                  |
|------|-------------------------------------|----------------------------------|---|----------------------------------|
|      | capital<br>issued                   | share<br>of all<br>new companies | capital<br>issued                               | share<br>of all<br>new companies |
|      | f 1.000                             | %                                | f 1.000   | %                                |
| 1885 | 970                                 | 36                               | 320   | 64                               |
| 1890 | 600                                 | 48                               | 214   | 52                               |
| 1895 | 548                                 | 42                               | 187   | 58                               |
| 1900 | 477                                 | 27                               | 155   | 73                               |
| 1905 | 787                                 | 21                               | 99  | 79                               |
| 1910 | 582                                 | 19                               | 182   | 81                               |
| 1915 | 402                                 | 13                               | 160   | 87                               |
| 1920 | 471                                 | 4                                | 217   | 96                               |
| 1925 | 349                                 | 11                               | 157   | 89                               |

source: Korthals Altes, table 6; 1885 etc is a five year average.

The life cycle of the free-standing companies in the colonies was not very different from those registered overseas. Our sample only gives an overview of the companies still in existence in 1912. The years in which they were established, however, are known. Graph 1 shows a time-series constructed backwards from the companies which survived till 1912. The time-series shows how many firms from this sample were established in each, preceding year from 1855 onwards. This series is confronted with annual data of the number of new companies, registered in the Netherlands, but established with the aim to enter the East Indies. Firm-mortality caused, as expected, a gap between both series, but many companies were survivors. The sample of 1912, furthermore, gives a reasonably correct impression of past developments. The life cycle of the colonial free-standing companies was not special.

One would expect management to be found near the sites of production sites. The advantages of being elsewhere, therefore, had to be greater than the costs incurred by distance. These advantages, however, were rather weak for the companies working in the colonies. The differences between free-standing and genuine colonial companies were not very big. Registration in the mother country was preferred if links with the capital market were more important. Capital issued by the free-standing companies was substantially larger than capital issued by the Indonesian companies. The importance of finance and entry to capital markets shifted the balance between the advantages of management at the site of production and the advantages of managing resources closer to sales- or financial

markets. Investments which were not idiosyncratic, but mixed and contracting with a low frequency ensured the viability of firms with a low level of integration.

Tabel 7 Concentration of management in the plantations of the Netherlands East Indies around 1937

|                       | sugar | coffee | tea | rubber | cinchona | tobacco | oil-palm |
|-----------------------|-------|--------|-----|--------|----------|---------|----------|
| number of estates     | 81    | 383    | 327 | 1226   | 101      | 80      | 43       |
| number of managements | 13    | 14     | 17  | 24     | 15       | 8       | 3        |

source: Hacoö, Management, 194

Concentration upon the level of plantations or individual companies can cause myopia. There were economies of scale in managing estates. The level of concentration was high. Tabel 7 gives an indication of the situation in the 1930's. Concentration, however, already had been high in previous decades. Java tobacco came from 40 estates in 1904, but was brought to the Netherlands by 9 importers. The five, so called culture banks were interested in 76 sugar companies, 73 coffee plantations and 59 other companies. They controlled 44 percent of the sugar production in 1884, 57 in 1904. Their share was a few percent less in the mid 1930's.<sup>52</sup> The lag between investments and proceeds stimulated lending turning trading houses into culture-banks. Initially development was not financed through equity, in contrast to theoretical expectations. Debt financing, using the future crop as collateral, was common. The crisis in the sugar industry of the 1880's led to the substitution of limited liability companies for one-man firms at the level of plantations. Trading houses increased ownership and engaged themselves more actively with management. Internalization followed intermediation. The size of investment and scale economies at the managerial level stimulated the emergence of "investment groups" and the "agency house system". The colonial free-standing companies, therefore, were neither managed part-time nor loosely. The style of the firm of Crone was very traditional, but that was no handicap in building a minor colonial empire. The H.V.A. combined decentralization with rigidly standardized budgets and a strict system of information for the main offices in the Indies. The Dutch headquarters concentrated upon strategic allocations of capital and the marketing of the produce. By 1930, the H.V.A. had 36 plantations and employed a stunning number of 170.000 labourers besides a staff of 800.<sup>53</sup>

Concentration was possible with top-management living either in the Indies or the Netherlands. At the beginning of the century, the Netherlands was the primary location. All culture banks were registered there. Companies registered outside the Indies usually employed more staff at their headquarters. Managerial skills were less expensive in Europe. Economies of scale to some extent, but particularly economies of scope by combining several managerial functions pulled management to Europe. The location was sometimes more complex than formal information revealed. A sugar company, registered in the Indies, but in fact a Chinese interest, also found it worthwhile to have a subsidiary in the Netherlands. A German-Swiss interest, with its headquarters in the Indies,

52 C. Eisfeld, *Das Niederländische Bankwesen* (Haag, 1916), 203; Crone, 93; Hacoö, Management, 192-195.

53 J. van der Zwaag, *Verloren tropische zaken. De opkomst en ondergang van de Nederlandse handel- & cultuurmaatschappijen in het voormalige Nederlands-Indië*, (Meppel, 1991) 102-103; [W. Brand], 1879 HVA 1979. *Honderd jaar geschiedenis der Verenigde HVA Maatschappijen NV*, ([Amsterdam, 1979]), 13-16; 47.

delegated by custom the oldest member of the directing board to its London office.<sup>54</sup> Traction powers were not equally strong in all sectors; in coffee and tea management was more pulled to the site of production. These factors did not remain equally strong in time. The changing composition of the boards was a first indication of the increasing importance of agricultural technology. Initially, commercial and financial skills dominated. Gradually, more and more planters were promoted from local administrators or advisors to the higher ranks of management. Geographical shifts in the consuming markets and better communications stimulated some companies to transfer management from the Netherlands to the Indies during the inter war years. The shift to the producing areas was most marked for the smaller plantations, rubber. In tea or quinine too, the managerial hierarchy became more Indonesian. The sugar companies left the essentials of policy making in the Netherlands, but they too transferred part of commercial policy to the producers organizations established in the Indies.<sup>55</sup>

One should, however, not overlook the proportions. Despite the decreasing share of the number of companies registered in the Netherlands, most of the production was controlled outside the Indies (see table 1). Furthermore, the conveyance of some managerial skills did not imply that the firms became more deeply rooted. These companies were to some extent free-standing in the host country. Japanese businesses, which entered the Indies after 1900, had a more profound knowledge of indigenous demand and local trade networks and developed marketing techniques geared for colonial societies.<sup>56</sup> Perhaps this was could not be expected from large-scale plantations, but it increased the difficulty for these companies to adapt to a post-colonial era. Their know-how was after all specific and not easily transferable, even within the tropics. Many did not survive decolonization. Besides Russia, the former Asian colonies are the best examples of countries where foreign-owned companies were of major importance before 1914 and accounted for very little after the Second World War. Truly amazing is, that the colonial contribution to national income was reduced from 13 percent in 1938 to 3 or 4 in the post war years and that the Dutch economy adapted easily to the change. The same had happened in Belgium after the First World War.<sup>57</sup>

J-F. Hennart defines a free-standing company as a hierarchical, but not intermediated international transfer of capital.<sup>58</sup> There is something to be said for this argument, though his transaction cost approach does not fit easily historical dynamics. Transfers to plantations, by far the most important part of overseas investment, were intermediated. The many companies producing colonial crops hardly can be considered free-standing companies, if one makes the absence of intermediation a crucial, defining characteristic. In that case one only can conclude that the model free-standing company, independent from intermediaries once the project was floated and used to finance small scale ventures with standard technology, was not common in the colonial economy.

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<sup>54</sup> Haccoû, *Management*, 149

<sup>55</sup> Hacoû, *Nederlands-Indië economisch*, 265-266; idem, *Management*, 139-152.

<sup>56</sup> P. Post, *Japanse Bedrijvigheid in Indonesië 1868-1942. Structurele elementen van Japan's economische expansie in Zuidoost Azië*, (Amsterdam, 1991).

<sup>57</sup> G. Jones, 'The Making of Global Enterprise', in: *Business History* 36 (1994) 11.

<sup>58</sup> J-F. Hennart, 'International Financial Capital Transfers: A Transaction Cost Framework', in: *Business History* 36 (1994), 51-70.

## VI Free-standing companies outside the colonies

It seems appropriate to isolate the non-colonial free-standing companies from the colonial sector. Almost one third of the free-standing companies in the sample were non-colonial, 22 percent if the numerous ships with a Belgian manager are removed. These companies accounted for 20 percent of capital issued, both in- or exclusive these ships. These shares have substance. Table 8 indicates the relative importance of regions and activities; capital issued was used again as the weight.

Table 8 Types and fields of activities by free-standing companies existing in 1912 outside the colonies  
(share of all capital issued by these companies)

|              | Eur | NAm | LaAm | Asia | Afr | Oth | Total |
|--------------|-----|-----|------|------|-----|-----|-------|
| Agri/Plantat | 1   | 11  | 3    | 1    | 0   | 0   | 16    |
| Sugar        | 0   | 0   | 0    | 0    | 0   | 0   | 0     |
| Mining       | 8   | 3   | 0    | 0    | 0   | 6   | 17    |
| Oil          | 5   | 11  | 0    | 0    | 0   | 0   | 16    |
| Industrial   | 4   | 0   | 0    | 0    | 0   | 0   | 4     |
| Constr/Util  | 0   | 1   | 1    | 0    | 0   | 1   | 2     |
| Infrastruct  | 0   | 0   | 0    | 0    | 0   | 0   | 0     |
| Banking      | 0   | 2   | 0    | 0    | 6   | 1   | 9     |
| Mortg banks  | 1   | 14  | 5    | 1    | 4   | 0   | 25    |
| Trade        | 0   | 0   | 1    | 1    | 2   | 1   | 5     |
| Shipping     | 2   | 0   | 0    | 0    | 0   | 0   | 2     |
| Other        | 2   | 0   | 0    | 0    | 0   | 1   | 4     |
| All          | 23  | 42  | 10   | 3    | 12  | 8   |       |

source: Van Nierop & Baak 1912

There were three clusters of relatively viable activities. Only a small fraction of the free-standing companies was industrial; most of it was chemical. The free-standing companies in this sector consisted of three groups of firms specializing in the production of carbon dioxide and related activities. These companies should be seen as parts of a whole including also a major factory located in Rotterdam and exporting most of its produce to South Africa and the Indies. The other players were a group of free-standing companies, exploiting factories in Britain, all linked informally with a Dutch engineering office, the Rommenh  ller group with both their resources and markets in Germany and a group companies exploiting German mineral springs.<sup>59</sup>

The Dutch chemical industry had lost most of its competitive advantages during

<sup>59</sup> The group working in Britain had one of the most influential Dutch bankers on its board. He lived in London, when the first factory was set up in Britain. Joh. de Vries (red), *Herinneringen en dagboek van Ernst Heldring (1871-1954)*, (Groningen, 1979), 75.



the second half of the nineteenth century.<sup>60</sup> The leftovers, therefore, were remarkable. Dutch officials stressed that carbonic acid and liquid oxygen were "very important commodities of commerce".<sup>61</sup> A Dutch innovation was the economic basis of both the national and free-standing activities in carbonic acid. The brothers Beins, searching for another locomotive power than steam, invented a simple process to produce carbonic acid. They also devised a machine to fill stopper-bottles with mineral water under pressure. The brothers had patented their innovation in several countries. The Netherlands, however, had repealed the patent law in 1869 and inventors could not obtain patent protection within the country till 1912.<sup>62</sup> A competitive advantage based upon knowledge difficult to protect at home, but easier outside the borders, was conducive to free-standing activity. This also explains the attractiveness of bypass-investments as in the case of the Rommenhöller group. The free-standing companies active in Germany found it difficult to assert themselves relative to the national companies. In 1905 they had to undergo a reorganization.

In mining, companies starved of capital and not particularly profitable dominated. The oil companies were a different matter. The companies of J. Deen were good examples of the group. The success of the pioneer of the Royal Dutch attracted him to oil as well. Deen introduced the strategy that the bigger the concession, the bigger the chance of success and that there was no harm in asking. He developed into a venture capitalist specialized in exploring and then selling the rights to established companies. The Royal Dutch was the preferred customer since the middle 1890's. The oil rush in Oklahoma after 1903 caught the attention of S.F. van Oss, who approached Deen. Two companies were established and shares in American ones bought. Production was of some importance, but it was not the aim to create a new independent. The Royal Dutch was approached in this case as well.<sup>63</sup>

A preference for speculation, in particular abroad, was often imputed to Dutch investors.<sup>64</sup> Another myth is that the Dutch lacked knowledge of mining and were even unwilling to be interested in such activities. In this context, men as J. Deen therefore are often seen as a subspecies of the speculative portfolio investor. They made a living out of "seizing" concessions. They were the antagonists of the "real entrepreneur, whose heart is in the work, and who is not actuated solely -or even mainly- by the desire for pecuniary gain".<sup>65</sup> "Concession hunters" thus were a kind of mala fide investors. These "speculative" explorers, however, incurred real risks and costs. In the early 1890's, Deen tried to interest the Standard in his first field. This company declared itself chary of investing large sums "in a country that is in an unsettled condition". An independent Dutch company wanted a year to make up its mind. In the meantime, Deen was unable to

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60 E. Homburg e.a. 'Chemie', in, H.W. Lintsen e.a. (red), *Geschiedenis an de techniek in Nederland. De wording van een moderne samenleving 1800-1890. Deel IV*, (Zutphen, 1993), 151-270.

61 J.C.A. Everwijn, *Beschrijving van handel en nijverheid in Nederland. Tweede deel*, ('s-Gravenhage, 1912), 580.

62 E. Schiff, *Industrialization without national patents. The Netherlands, 1869-1912. Switzerland, 1850-1907*, (Princeton, 1971); F. Gerzon, *Nederland, een volk van struikrovers? De herinvoering van de Nederlandse octrooiwet (1869-1912)*, (Den Haag, 1986).

63 F.C. Gerretson, *History of the Royal Dutch*, (Leiden, 1955) Vol I, 255, Vol II, 131-138; Vol IV 233-236.

64 The counterpart of the argument is that Dutch capitalists were overcautious. They were unwilling to accept industrial risks elsewhere considered acceptable.

65 Gerretson, *Royal Dutch*, Vol II, 207.

pay the royalty. The concession was withdrawn by the ruling sultan. Deen was not entitled to a compensation. In the end, the intricate relations between the local and colonial rulers in such matters ensured that he received "an ample sum as balm for the wound" from the Royal Dutch, aspiring to be granted the revoked concession.<sup>66</sup> The American adventure which followed was perhaps bad luck, but not a failure. The Royal Dutch calculated that it was unlikely that costs could be recovered and was not interested. The Van Oss, Deen companies were successful producers for some time. Furthermore, the investors withdrew in time by selling to a French combine in 1912, which had to meet a declining production and rising costs and quietly vanished from the markets in 1917.

Not only financiers speculated in this way. Also drilling companies, which became firms of substance in the 1890's, acquired rights in order to sell them later at a profit. This type of "speculative" brooking served a useful purpose under conditions of great uncertainty, for "of geology, (the Royal Dutch) knew only the name" during those years.<sup>67</sup> Furthermore, the rapid concentration in the oil industry from the mid 1890's onwards, is the cause of myopia. A posteriori the life span of many companies was short. But these were not all Deen companies. A substantial number was set up with the aim to become genuine producers. The first companies which got interested in European fields could not consider their activities in the light of a dominant "player" which would acquire their concession for ready money. Companies like the Maatschappij tot Exploitatie van Oliebronnen in Hannover, which developed the North German oil field near Wietze, were not a form of portfolio investment.<sup>68</sup>

It is amazing that the Dutch were so eager to invest in oil at an early stage. This was historical accident, but it also set the economics of QWERTY moving, a path dependent process in which reinforcing skills reinforced each other and intangible increasing returns to scale became available.<sup>69</sup> The development was not smooth. The Royal Dutch initially relied upon distribution for its strength, almost at its peril. The company even ignored outside technical information, the reports of engineers of the state Mines Department. The board preferred to believe their drillers' word that it had at its disposal "well-nigh inexhaustible supplies", overlooking "that nothing is more out of place in an oil field than a rhetorical phrase".<sup>70</sup> Internal technical and geological expertise was developed in reaction to a life threatening crisis. In 1898, its field came unexpectedly to an end and the company had to "sent for the doctor". A scientifically trained Swiss and Italian joined the staff. After 1898, the Royal Dutch built up a reputation for its systematic surveying. In 1912 the company set up a geological bureau of its own and internalized the work done in the field previously on short contracts and assessed by an outside advisor. One already had learnt that experience of drilling in Pennsylvania was of

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<sup>66</sup> Gerretson, *Royal Dutch*, 263-268.

<sup>67</sup> Gerretson, *Royal Dutch*, Vol I, 255.

<sup>68</sup> Gerretson, *Royal Dutch*, Vol I, 77-81; 162; 282; II 202-227. H. Gabriëls, *Koninklijke Olie: de eerste honderd jaar 1890-1990* ('s-Gravenhage, 1990), 52-53. Technology was also important in the north German oil field. The managing director of one company exploring was the banker M.J. Boissevain, a major critic of the Royal Dutch in this perspective. During a crucial meeting of the board in 1893, he argued that "as long as ... leadership (from technically and practically trained experts) was ... lacking, the success of the enterprise would depend upon blind chance". Boissevain preferred to have A. Stoop managing Royal Dutch and offered him financial support to obtain control in 1893.

<sup>69</sup> See for an adoption of P. David's Economics of QWERTY to international trade: Krugman, *Peddling*, 221-244.

<sup>70</sup> Gerretson, *Royal Dutch*, II, 92.

little use in the Indies and that other techniques were needed, an experience shared with the companies active in Rumania.<sup>71</sup> After the amalgamation of Royal Dutch and Shell, management of exploration and the technical side of the business was concentrated in Rotterdam.

The Dordtsche, the major Dutch competitor of the Royal Dutch in the Indies and the last to lose its independence in 1911, was more an engineer's company from the start. It was managed by a former mining engineer, who set out to acquire know-how as a civil servant and started on his own after the colonial government declined to set up a state oil company. The company was successful in coping with variations in the quality of the raw oil. It attracted specialized chemists to develop new products. Much more than the royal Dutch, this company excelled in manufacture. Outside the companies, relevant knowledge was generated as well. Waterschoot van der Gracht, head of the state's Geological Bureau, surveying the countries coal deposits between 1905 and 1918, introduced later modern, scientific exploration methods such as core drilling in the United States. He became the country's "top-notch petroleum geologist". Core drilling, which found its way rapidly into various regions of the world, was the only example E. Schiff could think of as an important Dutch invention in the "last era of individual inventor giants".<sup>72</sup>

In the oil industry, free-standing activity became an institutional form founded upon a wider competitive advantage than "borrower privileged access to capital". It is no accident that in coal or mineral mining, virtually no Dutch companies engaged in "speculative" exploration. Activities of this kind within the Netherlands were undertaken by German or Belgian firms till the 1930's. In oil, both the entrepreneurship of Deen and Stoop were aspects of the same competitive advantage when internalization within a few companies had not yet progressed far. The technological dynamics of the industry made free-standing companies a short-lived phenomenon in contrast to the plantations. Mining was less embedded in a indigenous infrastructure. In our sample, both mining and oil are represented quantitatively on a same footing. In mining, however, an abundant capital market was the only home-advantage. The free-standing companies were more truly ephemera.

The 23 mortgage banks were an important part of Dutch free-standing capital investment. The roots of international activities in this field went back to 1861. During the last decades of the nineteenth century the number of national mortgage banks increased and reached a peak after the turn of the century. The peak of the banks going abroad followed just before the beginning of the first world war. In 1912, the mortgages owned by the 23 banks operating abroad had a value of 104 million guilders.<sup>73</sup> The portfolio of the 60 banks, which operated within the Netherlands, had 430 million worth. America and Canada were the major markets. Mortgage banks could expect to earn an

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<sup>71</sup> Gerretson, *Royal Dutch*, I 244-247; R.J. Forbes, D.R.O. Beirne, *The Technical Development of the Royal Dutch/Shell 1890-1940* (Leiden, 1957) 60-147.

<sup>72</sup> Forbes, Beirne, *Technical*, 73. K. Beaton, *Enterprise in Oil. A History of Shell in the United States*, (New York, 1957) 200. Schiff, *Without National Patents*, 128. Not correctly, Schiff attributes the invention of the diamond drill to Waterschoot personally. The latter's State Mineral Exploration Service, however, required tertiary cores which could not be obtained with a diamond core drill. In 1908, the firm, contracted to do the drilling, developed the Holland core or Koster drill, an unpatented invention. Forbes, Beirne, *Technical Development*, 9-12, 148-175. Around the middle of the 19th century, the "famous Banka drill" had been developed in tin mining in the East Indies. Allen, Donnithorne, *Western Enterprise*, 169.

<sup>73</sup> By a lucky coincident the figure of mortgages is the same as the figure of the bonds issued in 1913 mentioned in Gales, Sluyterman, 69. The latter refers to 1913 and only to the banks operating in the US and Canada.

interest rate of 7 to 8 percent, while paying 4 to 5 in the Netherlands.<sup>74</sup>

Tabel 9 Years of establishment of mortgage banks listed in 1912 and 1938

|         | Operating<br>outside<br>the Netherlands |      | Operating<br>in<br>the Netherlands |      |
|---------|---|------|------------------------------------|------|
|         | 1912                                    | 1938 | 1912                               | 1938 |
| 1860-69 | 0                                       | 0    | 2                                  | 2    |
| 1870-79 | 0                                       | 0    | 1                                  | 1    |
| 1880-89 | 5                                       | 1    | 10                                 | 10   |
| 1890-99 | 1                                       | 1    | 19                                 | 14   |
| 1900-09 | 3                                       | 1    | 28                                 | 9    |
| 1910-12 | 14                                      | -    | 0                                  | -    |
| 1910-19 | -                                       | 3    | -                                  | 2    |
| 1920-29 | -                                       | 5    | -                                  | 4    |
| 1930-38 | -                                       | 0    | -                                  | 0    |

Source: Nierop, Van Baak, Van Oss

Some banks, especially the younger ones, transacted business either through agents, the cheapest organization, or trust companies. The latter was common in Canada. Most banks attempted to set up a local organization of their own. Considering the fragility of a system based upon agents, it was amazing, according to a banker with experience in the United States, that catastrophes were not more frequent. A local office with superintendents was not a guarantee of problem-free banking. The Northwestern & Pacific Hypotheekbank, the first of its kind in the United States, had to apply for a moratorium in 1896, went into bankruptcy two years later and had to be reconstructed. Despite this history, the risk premium for operating abroad was modest. International mortgage banks had to offer an interest rate 0.5 percent above the 4.5 common by the national banks.<sup>75</sup> Furthermore, one would expect individual banks to hold a relatively larger portfolio if both risks and organizational costs were seriously higher overseas. However, national banks were larger, 7.168 thousand guilders invested in mortgages per bank in contrast to 4.530 by the international banks.<sup>76</sup>

By 1913, insiders started to worry that demand abroad outstripped finance available within the country. The increase in the number of banks stopped, but the bonds issued continued to rise till the middle of the war.<sup>77</sup> The Dutch banks had been losing

<sup>74</sup> J.C.J. Kempees, 'De Nederlandsche Hypotheekbanken in de Verenigde Staten van Noord-Amerika en in Canada', in: *De Economist* (1919) 666; Bosch, *Beleggingen*, 439

<sup>75</sup> The founder had been active in other financial institutions. A recession and unsecured loans spread the problems all over his empire. Kempees, *Hypotheekbanken*, 661, 878-882; Hinte, *Nederlanders*, II, 238, 242, 244; Bosch, *Beleggingen*, 186-188.

<sup>76</sup> Kempees, *Hypotheekbanken*, 661. Many companies in the latter group were only recently established. The relation is the same for the banks set up in the 1880's and the differential even increases somewhat. The average portfolio of the banks working overseas and dating back from the 1880's was 8.148 thousand guilders, the national ones had invested 14.253.

<sup>77</sup> Kempees, *Hypotheekbanken*, 657. See for figures on the companies in the US; Bosch, *Beleggingen*, 527.

their competitive advantage for some time. Till the turn of the century, interest rates had been under the level the neighbouring European countries; gradually the Netherlands itself was becoming a high interest country. In the United States regional differences in interest rates were decreasing. Soon after the war, agricultural areas had to cope with a long recession. The mortgage banks reacted with organizational changes, but these were no solution. The portfolio of the mortgage banks declined from 104 in 1912 to 13 million guilders in the mid 1930's.<sup>78</sup>

Both the parallels and the differences in the development of the insurance companies are interesting. Life-insurance became quickly international after 1880. Insurance companies concentrated either upon the colonial markets or Europe. On the eve of the First World War, about one third of the portfolio of all Dutch insurance companies was insured abroad, inclusive the colonies. Without the colonies the figure was 23. The foreign interest was concentrated by a few, large companies. Their portfolio's abroad accounted for up to 50 percent of the total. The mortgage banks operated all as free-standing companies. If life-insurance companies went abroad, they combined both national and international business. Why was the free-standing form common in mortgage banking and why the multinational one in insurance? After all, a characteristic of Dutch insurance was to create separate legal entities for differing risks; composite businesses insuring a range of different risks was unusual.

The major value added of a free-standing construction of mortgage banks was the link with a relatively cheap capital market. Assessing risks, administration and day-to-day management had to be done elsewhere. A staff in the Netherlands would not be more competent in providing these services. In the case of life insurance, risks were much more standard, Individual cases might be assessed from a distance, control was easy and the spread of risks did not require substantial numbers. The risks on lives should be matched by low risk investments in the same currency. In fact, they were not matched completely; contemporaries constructed a geographical spread which, they hoped, would minimize the impact of local wars. Nevertheless, at the investment side of the business, there was not much to gain by entry to the Dutch capital market. The need for working capital was limited. The availability of a wide range of government stock in the exchange was not a particularly important advantage. Relatively low interest rates were a disadvantage for operating abroad, for a lower computational interest would mean a higher premium for the foreign customer. The advantage of the mortgage banks was a disadvantage for the insurance companies. The head quarters of the insurance companies provided a real service to the foreign daughters. One might think of rather specialized administrative and actuarial skills. In life insurance costs weighted most heavily at the beginning of the term of the policies. Commissions and the expense of advertisements increased rapidly. It was in the interest of foreign daughters with young portfolio's that costs could be carried over to an older portfolio.

The different advantages of the home-country also explain the differences of foreign activity within the Netherlands between these two industries. The internationally operating mortgage banks of Dutch origin were not superior to foreign banks in tapping the Dutch capital market. Good evidence on the financial streams is not available, but numbers might give an indication. In 1906 7 Dutch mortgage banks worked overseas and

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<sup>78</sup> J.B.D Derksen, De samenstelling van het nationale vermogen, in: De Nederlandsche Conjunctuur X (1939) 123-125.

22 foreign banks were active upon the Dutch capital market.<sup>79</sup> In life insurance foreign companies had been active in the Dutch market since the middle of the 19th century. Domestic firms, however, enjoyed an increasing competitive advantage. The Balassa index calculated on capital insured was positive and increased from 0.42 in 1903 to 0.54 in 1913.<sup>80</sup> In that year, 49 foreign life insurance companies, inclusive 1 registered in the Indies, had a Dutch portfolio of 118 million guilders, in contrast to the 394 of the 24 Dutch companies owned outside the borders, of which 110 in the colonies.<sup>81</sup> Even in insurance, one may doubt the strength abroad of the competitive advantage residing in human skills and an existing, profitable portfolio. With the exception of the activities in the Indies, Belgium and Denmark, most of the other foreign portfolio's did not show a profit. Managers hoped that in time they would. The First World War proved that insurers had underestimated the riskiness of investing abroad, particularly monetary risks, and treated the costs incurred by going abroad too lightly. By the early 1920's, the foreign portfolio was decimated to 2 percent of the portfolio.

Besides these three clusters, free-standing activities outside the colonies was largely a residual. Inspection of the names and fields of activity of the companies reveals chance as a factor. The companies varied from Natuna, a syndicate which claimed it fished up pearl-shells, to the Norwegian Water Power and Industry Society, which aimed at "exploiting waterfalls and those industries in which they might be put to use". There existed also more serious affairs, like the Dutch company to exploit salt in Russia, established in 1884. It was a profitable venture; on the eve of the Russian revolution, two of its managing directors were still resident in Russia.<sup>82</sup> Also in this case, the capital market was the major attraction for registration in the Netherlands. Indigenous salt mining was still a dream of a few not taken too seriously by business circles. The small-scale (sea)salt refineries concentrated upon the higher qualities, was declining and had no incentive to expand abroad. The free-standing company was not part of a network trying to secure resource supplies. No raw salt was imported from Russia.<sup>83</sup>

Generally, the non-colonial part of the free-standing companies come very close to M. Wilkins characterization. Graph 2 shows the birth of the free-standing companies operating outside the colonies and still alive in 1912. A pattern like graph 2 is to be expected if the rate of mortality is high. The vast majority was ten years old or less. These companies were young, survivors were an oddity. The nature of the source, lists of limited liability companies, might create the impression that a short life-span was a major characteristic defining the group in contrast to foreign direct investment of the usual kind. Indeed, according to Mira Wilkins free-standing companies were both collectively the most important channel of foreign direct investment and the average company lived short.

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79 P.W. Klein, H.H. Vleesenbeek, 'De geschiedenis van het hypotheekbankwezen', in: R. Burgert, J.L. Bouma, H. Visser (red), *75 jaar Nederlandse Vereniging van Hypotheekbanken* (s.l., 1981) 12. The foreign mortgage banks issuing bonds on the Dutch capital market disappeared after the war. D.C. Renooij, *De Nederlandse emissiemarkt van 1904 tot 1939* (Amsterdam, 1951) 90.

80 Data on the premiums are not available. Capital insured therefore was chosen as an alternative.

81 Commissie voor de monopoliseering van het levensverzekeringbedrijf, *Rapport in zake de bedrijfsresultaten van het levensverzekeringbedrijf in Nederland* ('s-Gravenhage, 1912), bijlage XIII. The foreign portfolio of the Dutch companies includes the colonial one.

82 R.J. Forbes, *Het zout der aarde*, (Hengelo, 1968) 278. We, however, could not trace more obvious links with the salt industry.

83 Everwijn, II, 813-815.

There, however, is little information on the unsuccessful ventures of multinationals. Most attempts to go abroad within insurance were short-lived trials ending within three or four years. The first industrial Dutch multinational assessed with experiments whether new factories were viable or not, both within the country and abroad. W.A. Scholten, producing potato-flour and treacle was the first to expand across the frontier. In 1890, the materials bought by his foreign factories accounted for 46 percent of all similar expenditure, prices being 5 percent higher abroad. This outcome was the result of intimately connected successes and amputations. From the late 1860's onwards, he opened 11 factories in northern Germany, Poland and Russia. Five were closed on the average after 8 to 9 years, four were between 25 and 45 years old by 1912.<sup>84</sup>

It is difficult to detect shared characteristics among the free-standing companies once some groups are removed and the, perhaps "true" free-standing companies remain. Recently, D. McCloskey wrote that one can see the market as a post-impressionist painting, close one might see brushes and gold points, at some distance these fade into insignificance.<sup>85</sup> The gold-points of markets, transaction costs, make it possible to see at a close distance chance, stubborn preferences, culture, inertia or power, forces stronger than competition within the interval between the gold points. The question, however is, how wide the distance between the gold points was and how important a detailed inspection of the interval is given the issue at hand. Once the clusters mentioned above are removed from the sample, it seems that one is merely left with chance, altogether 3 percent of total capital of capital issued by all Dutch limited liability companies. Without the carbon-dioxide etc. and furthermore without the administration and banking offices and ships, the residual accounted for 12 percent of all companies in the sample and less than 10 in terms of capital. The mentioned development in graph 2 would be accentuated. The free-standing companies without a clear 'raison d'être', the non-colonial companies as a group and in particular the residual within it, were not particularly important. That is in contradiction with M. Wilkins description of the free-standing companies as taken together the most important conduit of money going abroad.

It is not surprising that there were so few "true" free-standing companies. Their rarity is a sign that market failure was not widespread. It would have been a substantial signal of failure in the capital markets, if free-standing companies were important and at the same time failed often. This problem would be the more remarkable because many medium sized firms allegedly could not find finance easily in the open markets.<sup>86</sup> Specific conditions must have created an environment which allowed this to happen in Britain. Spectacular failures remained "causes célèbres" in the Dutch capital markets for a long time. In 1915, one remembered the liquidation of some savings banks around 1830 as "not particularly long ago".<sup>87</sup> Contemporaries thought that the Dutch were more

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<sup>84</sup> A. Winkler Prins, *Willem Albert Scholten. Herinneringen uit het leven van een industrieel* (Groningen, 1892) 232-252; 297-300; J.D.R. Dijk, W.R. Foorthuis (red), *Vierhonderd jaar Groninger Veenkoloniën in biografische schetsen* (Groningen, 1994), 178, 182.

<sup>85</sup> D.N. McCloskey, *Knowledge and persuasion in economics*, (Cambridge, 1994) 157-159.

<sup>86</sup> Longevity is not a priori a demarcation principle between viable entities. Some activities as brooking in oil concessions would be short-term and the continuity of a firm not necessarily an indication of superior performance. Some of the ailing companies in (gold) mining are nowadays still quoted at the exchange.

<sup>87</sup> Brandes de Roos, 170, zie echter ook: 70-71. The importance of reputation is a major point in: J. Bradford De Long, 'Did J.P. Morgan's Men Add Value?. An Economist's Perspective on Financial Capitalism, in: P. Temin (ed), *Inside the Business Enterprise. Historical Perspectives on the Use of Information* (Chicago/London, 1991) 205-249.

extraordinary sensitive for losses, which seems odd as the same pointed to a certain preference for speculating with high risk ventures. The background was different. High risk portfolio investments were attractive to some because they could act upon a stream of abundant, cheap information. In banking and industry good information was more costly and reputation more crucial. In the few scandals, free-standing companies figured prominently. The reorganization of the Nederlandsche Margarine Fabriek te Wenen, the Dutch margarine works in Vienna, in 1902 had more effect than the company itself was worth. It made industrial emissions more difficult for some time.<sup>88</sup> In the early 1920's, the Dutch banking system experienced its "Gründerkrise". Suspense steadily increased. Negative news about one of the major Dutch banks was exchanged in financial circles, for example during a banquet at the London Chamber of Commerce. Almost two years later, the public at last lost confidence when a substantial loan to finance A. Kröller "war-babies", his foreign mining companies, became public. Kröller's first was the largest mining company in the sample of 1912, with a share of almost one fourth. Among general bankers opinions about links with industry changed drastically, but also at the exchange industrial stock lost its glitter for some time.<sup>89</sup> Incidents both concerning financial institutions and industrial companies were an important part of the collective memory, because these sectors were less transparent for outside investors and trust could easily be destroyed.

The sensitivity was also a sign that major deviations of normal practice were rare, that trust was not often destroyed. Between 1902 and 1914, 9 companies quoted at the stock-exchange had to reorganized, 4 were free-standing. Both the number and the amount of capital written off -5.5 million guilders- were modest. The share of the free-standing companies in the latter was 60 percent. Inflated capital was probably the major problem of the carbonic acid firms active in Germany. They belonged to the few companies quoted which underwent a process of reorganization before the first world war. This, however, was not a major handicap in the long run.<sup>90</sup> Crucial was the background of such reorganizations. That made the reorganization of the margarine factory in Vienna in 1902 painful, but the bankruptcy of the first international mortgage bank acceptable and the massive problems of the free-standing sugar-factories "normal". Of the 40 in existence in 1932, 13 were liquidated and 15 reorganized during the ensuing years.

Dutch investors were prepared to expose their capital to risks, sometimes even considerable risks. Trust and information were major conditions. Free-standing companies could meet these requirements, but only under specific circumstances. In the colonial setting, the oil industry or mortgage lending trust could be created.

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88 Brandes de Roos, 109.

89 Rotterdamse bank NV, Honderdste Jaarverslag 1962, 34-35. P.E. de Hen, *Actieve en re-actieve industriepolitiek in Nederland. De overheid en de ontwikkeling van de Nederlandse industrie in de jaren dertig en tussen 1945 en 1950* (Amsterdam, 19\*\*), 132-133. Joh. de Vries, Heldring, 464; 562-565.

90 During the same period six firms were liquidated, but the share of free-standing companies can not be calculated in the source. J.L. Meij Jr, *Weerstandsvermogen en financiële reorganisatie van ondernemingen* (Amsterdam etc., 1946), bijlage II. Rommenhölter was used as a bench-mark for a companies not reorganized after the war within the chemical industry.



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